

Agricultural Outlook Forum
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Presentation

Overhead #1 – Title page

Hello, my name is Dave Yvanovich. I'm presenting information on the frozen strawberry markets, specifically, the emergence of China as a significant producing nation and its impact on the world strawberry markets.

There are many levels of detail here and I'll hit the highpoints here.

Overhead #2 - Who is Dave Yvanovich?

First, let me tell you a little bit about my background.

I'm currently the Vice President and General Manager of Frozsun Foods.

I'm also the current Chairman of the Processing Strawberry Advisory Board of California.

Today happens to be my 10 year anniversary with Frozsun Foods and I've been working in the strawberry industry in California since early 1988, primarily in management roles from Operations to Sales & Marketing.

Overhead #3 – Who is Frozsun Foods?

Frozsun Foods is the market leader in the U.S. frozen strawberry market and one of the largest processors and marketers of frozen strawberries in the world.

We receive more strawberries for processing than any other company in the U.S., roughly 150 million pounds per year.

Frozsun has processing facilities in the key strawberry growing areas of the California coast.

Our products are marketed to retail, industrial, food service, institutional, and export markets.

In the Private Label retail category, we've been named the Category Colonel, three years running.

We are privately held and have sister companies in farming as well as fresh marketing. That is, we are vertically integrated.

Now, let's look at China's emerging presence as it relates to strawberries and its impact on the world markets and more specifically, the U.S. and California strawberry markets.

Overhead #4, California acreage, US Consumption in total and per capita, and imports from China.

First, I'd like to provide a brief overview of the frozen strawberry market in the U.S. in terms of size of the market, acreage, imports, and consumption.

This data shows a consistent trend in increasing acreage of California strawberries.

It also shows a recent and significant increase in domestic consumption in the U.S. as well as a recent increase in imports from China.

For the 5 year period from 2000 through 2004, the total annual consumption of frozen strawberries in the U.S. has averaged 577 million pounds per year, or roughly 1.9 pounds per capita.

Growth over this 5 year period has been very modest.

However, in 2005, consumption exceeded 701 million pounds, with per capita consumption eclipsing 2.3 pounds.

This increase in consumption has primarily been driven by increased health awareness and consciousness of consumers in the U.S. market.

The primary inputs or sources of frozen strawberries into the U.S. market in 2005 was roughly as follows.

Overhead #5, Inputs into the U.S. market.

Inputs into the U.S. frozen strawberry market.

California	= 445 million pounds
Northwest, Oregon and Washington	= 30 million pounds
Imports from Mexico	= 76 million pounds
Imports from China	= 34 million pounds
<u>All other imports</u>	<u>= 37 million pounds</u>
Total inputs into the U.S. market	= 622 million pounds

Overhead #6, Imports from China into the U.S.

The supplies from China are now having a much more significant impact on our markets. Previously, the influence was primarily a pricing influence, with insignificant marketshare.

However, in 2005, that has now changed.

This chart shows the annual imports from China.

In 2000, the imports from China were nil, 400,000 pounds.

In 2004, imports from China reached 11.8 million pounds, or 2% of U.S. consumption, and in 2005, 34 million pounds, or nearly 5% of the market.

Clearly, the trend line shows that China has emerged as a significant player in the U.S. market and indicates growth in the future.

2005 was the coming of age of China as a significant supplier to the U.S. market.

Now, let's go back and take a look at China's beginning in strawberries and emergence as a supplier of frozen strawberries to the world's markets.

Overhead #7, Map of China highlighting Shandong, Heibei, and Liaoning.

China began its expansion into exporting of frozen strawberries about 15 years ago.

25 years ago, there were negligible strawberry acreage.

From roughly 1980 to 1990, strawberry production began, primarily in the Shandong, Heibei, and Liaoning Provinces.

Overhead #8 harvest seasons in China, and include farm size data for China and U.S.

The harvest seasons in China can be exploited to harvest some strawberries in most months of each year. However, the majority of the production for the fresh market is from mid-November to July. And, the harvest season for processing frozen strawberries is primarily from mid-April to the end of June. The farm size in China is much smaller than is commercially practiced in California. Small family farms are typical, less than one acre per family farm. These small farms create challenges for effective traceability of processed fruit back to the farm.

It is worth noting that the data I'm presenting is from a variety of sources. Compared to the U.S., there is far less industry data collected and assembled in China. Therefore, the data I'm presenting are best estimates using a variety of sources.

Overhead #9 China's current acreage, yield per acre, California and U.S. acreage and yields

From pre-1980, when strawberry acreage was negligible, to the early 1990's when acreage became more collectively organized for commercial output, to today, the industry in China has had consistent growth in acreage and in geographic areas that produced commercial levels of product.

That is, the acreage increased in the primary growing areas and also expanded into several Provinces in the south, central, and even western China.

It is estimated that China's acreage that supported the 2005 crop was roughly 170,000 acres.

This compares to California's acreage of 32,636 acres in 2005 and the total U.S. acreage at roughly 49,000 acres.

However, the production yield in China is significantly less than that in California.

The yield in California was 55,000 pounds per acre in 2005, while the yield in China was estimated at 10,300 pounds per acre.

While China's acreage of 170,000 acres is over 5 times that of California's 32,636 acres, the total crop production is roughly the same.

Overhead #10 % Fresh vs % Freezer, 2/3 vs 1/3, then 3/4 vs 1/4, then 4/5 vs 1/5.

In China and California, there are fresh and frozen components.

In China, of the total production of 1,785,000,000 pounds, roughly 80% (1,428,000,000 pounds) of the total crop is consumed as fresh produce while 20% (357,000,000 pounds) is processed and frozen.

In California, the trend is that each year, a larger percentage of the crop goes to the fresh market.

In 1995, 2/3 of the crop went to the fresh market and 1/3 went to processing.

Since 2000, the average moved to 3/4 fresh and 1/4 to processing. In 2005, the split was nearly 4/5 to fresh and 1/5 to processing. In 2006, both California and China may have similar results regarding fresh and frozen tonnage.

Overhead #11, 2005 and 2006 acreage

For 2006, it is forecasted that acreage in China will decline by as much as 20 to 30%.

And, it is estimated that this will reduce the frozen production by less than 10%, with the fresh market volume suffering more significant reductions in 2006.

This reduction in acreage is due to poor economic results for growers in the recent past, as well as damage to the plant stock during the nursery and planting cycles due to weather.

Overhead #12, Photo of Japan. China's growth in exporting frozen strawberries.

In terms of exporting frozen strawberries, the first market that China targeted was the Japanese market.

In the 1990's, California was the primary production source for supplying the Japanese market with frozen strawberries.

Exports from California to Japan were roughly 30 million pounds per year.

The Japanese market was the most demanding in the world, in terms of quality, food safety, pesticide control, and traceability.

However, as the Chinese frozen strawberry industry emerged, the Japanese buyers invested in Chinese frozen strawberry manufacturing, with both money and knowledge. Quickly, the manufacturers in China were able to adopt the standards that the Japanese buyers expected.

The buyers in Japan were driven to China by the opportunity to reduce costs.

At that time, the price for Chinese strawberries were roughly 1/3 to 1/2 the cost of California strawberries.

Many Japanese companies dispatched their personnel to China to train the manufacturers in Good Manufacturing Practices, HACCP, plant design, and production methodology.

This transfer of knowledge allowed China to gain the expertise to meet market demands.

Overhead #13 – US Exports to Japan chart

From 1995 to 1999, there were very modest exports from China to Japan. However, as the manufacturers improved their performance in meeting the expectations of the Japanese buyers, the exports rose dramatically from 2000 to 2005.

We can see the transition to China in this chart.

This chart shows the declining exports of frozen strawberries from the U.S. to Japan.

Nearly all of this displaced movement was replaced by Chinese exports to Japan.

In other words, China took 25 million pounds of marketshare that was previously supplied by the U.S.

This continues to be the situation today.

The primary driver was, and is, price, with minimum quality standards being met.

Overhead #14, map of Europe.

As the Japanese market was transitioned to China as the source for frozen strawberries, the Chinese manufacturers then focused on a secondary target market, Europe.

This secondary market has been significantly impacted by China's aggressive offerings to Europe.

By 2003, China's exports to Europe exceeded their exports to Japan.

The Polish strawberry industry has lost significant market share to Chinese imports over this period and in July of 2005, Poland initiated the launch of a nine-month safeguard investigation by the European Commission.

Overhead #15 Imports into the U.S. from China.

Following Japan and Europe, the third target market for the Chinese producers is the U.S. market.

As you can see, China is now taking market share in the U.S.

The imports into the U.S. have gone from less than one percent of the California pack to over nine percent.

Based on the changes that have occurred in the Japanese and European markets due to imports from China, it is with concern that the U.S., and specifically, California growers and processors are wary of future pressure from China.

If the trend lines continues, there will be further losses of marketshare experienced by California producers.

Overhead #16, comparisons of grower pricing, finished goods pricing, of California vs China.

As you can see from this data, the fear for California producers is obvious.

China has very few regulatory constraints for growers and processors, while California has strict oversights by various regulatory agencies, including OSHA, EPA, FDA, etc.

The cost structures for Chinese growers and processors are simply very different compositions than those of California's.

China's cost structures are simply much lower than that of California's.

Overhead #17 Impacts we should expect in 2006.

What impacts should we expect in 2006 regarding China's strawberry industry?

In 2006, we should expect that China will continue to work to penetrate new markets, with the U.S. still a primary target market.

We should expect to see China increase the number of pack styles produced and sold.

China has delivered 34 million pounds into the U.S. market and we should expect to learn how well it is received and how well it performs in this market over the next 6 to 12 months. How well it is received and how well it performs will influence import volumes from China over the next cycle.

We should expect pricing for Chinese product to increase due to the decrease in acreage, but still be significantly lower than California prices.

We should expect to see that China's pricing will tend to depress the market pricing for California and other producing nations.

We should expect to see California to continue to have superior performance compared to China in terms of quality, flavor, sugar levels, consistency of quality, consistency of supply, appearance, but, higher prices.

Overhead #18 - Opportunities graph of fresh exports to Japan.

What are the future challenges and opportunities for the strawberry industries of California and China?

As China's economy and standards of living rise, internal consumption of strawberries, both fresh and frozen will likely increase.

There is an opportunity for California to export fresh strawberries to China.

That is, there is a market window.

Currently, China does not allow the importing of fresh strawberries into China.

If the Chinese market allowed fresh shipments into China, there would be a market opportunity for growers/shippers in California to meet this demand.

An analogous market to China would be Japan.

Japan grows strawberries internally to meet the Japanese fresh market demand.

But, for several months of the year, the fresh market demand is met by fresh strawberries from California.

There is the opportunity for California growers to supply fresh strawberries to China in a similar manner, between July and November, should the Chinese market be opened for fresh sales into China.

Overhead # 19 – Challenges showing 20%, 7%, and 6% for China, and California has Labor, rising costs of production, and methylbromide alternatives as challenges.

One key challenge for China is managing the growth of the industry.

China has

20% of the world's population,

7% of the world's tillable land, and

6% of the world's available water supply.

These facts will be significant in shaping the future of the agriculture industry in China.

California will have key challenges in managing and maintaining a supply of Labor.

Developing alternatives to Methyl Bromide.

Competing in the world markets of frozen strawberries due to the high costs of growing and processing in California.

Overhead #20. Final thoughts.

Final thoughts to take with you.

China is now a major force in the production of strawberries

China's influence will continue to depress strawberry crop values worldwide.

China is a potential market for fresh strawberries in the short term.

China is a potential market for frozen strawberries in the long term.

Overhead #21. Photo of me in the strawberry field, and a Thank You.

Thank you. I appreciate your attention.